

“The Private Student Loan Transparency and Improvement Act”
June 8, 2007

The Dodd legislation extends new protections to all private student loans in order to improve transparency, prevent unfair and deceptive private lending practices and eliminate conflicts of interest.

Preventing Unfair and Deceptive Private Lending Practices and Eliminating Conflicts of Interest: The Dodd legislation draws from the New York State Code of Conduct and applies provisions of it to the private student loan market. The Dodd bill would:

- Prohibit lenders from engaging in revenue-sharing and loan co-branding arrangements that use the name or logo of an institution;
- Prohibit lenders from offering inducements, or any item of value, in exchange for preferential consideration of their private loan products or services;
- Prohibit lenders from using any data in their underwriting that may have disparate impact on the loan products, terms, or conditions available to student borrowers based on race, age, and other personal factors, or the institution they attend.

Improved Disclosures to Student Borrowers: Borrowers are best served when provided with accurate and timely disclosures about their private student loans. The Dodd legislation would:

- Require all private student loan solicitations to include a disclosure box that includes the loan's APR, other information regarding the terms and conditions of the loan, whether the rate is introductory or promotional, and if so, its duration;
- Require lenders to provide a clear and concise disclosure of the rate, terms and conditions of a private loan that has been approved for a student borrower *prior* to their signing the promissory note; and provides borrowers with a “cooling off” period;
- Requires lenders to provide prominent disclosure to applicants of their eligibility for lower-cost federal loans through the federal financial aid program and requires the borrower, and co-signor, to certify that they have received, and read, the disclosure;
- Apply Truth in Lending Act (TILA) provisions to *all* private student loans

Promoting Loan Transparency: The Dodd bill would authorize the Federal Reserve to implement rules requiring private lenders to collect and report data regarding their student loan applications, originations and denials, including the terms and conditions of the loans they make, aggregated by the race, gender, and age of the borrower as well as by type of institution. Similar requirements exist for mortgage lending activities under the Home Mortgage Disclosure Act (HMDA), which was enacted to curb discriminatory mortgage lending practices.

Making College More Affordable: The Dodd bill would authorize federal banking regulators to give financial institutions credit under the Community Reinvestment Act (CRA) for making “low-cost” private loans (i.e. loans with costs and fees similar to federally guaranteed loans) to low-income student borrowers.